

Westminster City Council Budget Representation 2023

Introduction

Westminster has a key part to play in enabling the UK economy to return to a stable footing, enabling investment in public services and projects to level up the country. The faster and more prosperous the recovery is, the sooner we will be able to return to our role as an economic engine for the UK: generating c.£72bn GVA; providing over 700,000 jobs; and providing c.£2.5bn for the public purse in business rates alone. There is extreme pressure on public services, residents and businesses which we need to be enabled to address more fully – through investment and devolution. We have taken some much-needed measures, such as introducing free school meals for all our primary schools but are not able to tackle issues of national regulation.

We have identified three themes of focus for the Chancellor;

- **Restoring and growing the economy** - to enable this, we would urge the Chancellor to announce three measures:
 - Reform business rates, to level the playing field for high street retailers and address the current disincentives to investment.
 - Re-introduce tax-free shopping (including EU citizens) to increase London's competitiveness and enable us to drive revenue and growth to benefit the whole of the UK.
 - Introduce effective regulation of short-term lets and enable the introduction of a local overnight levy.
- **Addressing the systematic challenges facing Local Authorities-** to end this cycle, we are calling on the Chancellor to announce:
 - clarity on his plans for local authority funding for the next three to five years, enabling local authorities to continue investing in growth and excellent public services with a clear, sustainable funding plan.
 - increasing funding for temporary accommodation, affordable housing, fire safety and incentivising retrofitting.
 - systematic investment to tackle the causes of persistent rough sleeping.
 - clarity on longer term funding arrangements for Adult Social Care beyond short term grants, and to determine how the sector can be strengthened to resolve long-term structural and funding issues.
- **Supporting Westminster to tackle our acute challenges** - as a local authority with a unique landscape there are certain challenges that are particularly impactful, and which need to be addressed to truly enable us to support our communities to thrive. Consequently, we are calling on the Chancellor to announce:
 - investment in flood mitigation and assurances that more people will be able to get affordable insurance cover for flooding.
 - grant funding for district heating network upgrades.

Business Rates

Bricks-and-mortar businesses are essential to cohesive and thriving communities, and in Westminster also operate as the heart of the West End - attracting tourists and visitors from all over the world. However, they are being held back by the heavy burden of business rates, which have grown excessively. The current system penalises investment - as investment in buildings, including improving carbon efficiency, can lead to higher business rates. We embrace the Chancellor's suggestion that we need to move more decisively towards fiscal devolution and ensure that Local Authorities get a share of the proceeds of growth – but the current system of retention can lead to perverse or blunted incentives. This is particularly pertinent when considering capital investment and recognising the benefits of retrofit and minimising embodied carbon in comparison to new build and demolition.

The system is fundamentally biased towards online retail, with a tax tied to rental values-meaning that online retail is significantly tax-advantaged relative to high street businesses. This is before accounting for the complexity added by layers of exemptions and reliefs, necessitating extra spending on surveyors and agents. We would encourage a reduction in the multiplier – which has grown excessively – and ask the Government to think again about pursuing an Online Sales Tax or similar measure that helps to restore a level playing field. Although there will be further adjustments through the new valuation list this year, any reduction as a result of revaluation will help but far from solve the problems of retailers and other businesses.

Tax-Free Shopping

Our high street businesses are essential for our economy with shopping being a major attraction to international visitors. Levels of tourism were down by 85% in Westminster during the pandemic, and similar situations in our competitor cities (New York, Paris, etc.) there is now extremely fierce competition to draw people back. Our businesses need as much help as they can get to draw these tourists back to the UK quickly, and our current position as the only country in Europe not to offer tax-free shopping to international visitors inhibits that. This is not only an opportunity for growth that is already available to us, but one that can be boosted by our departure from the EU. Oxford Economics (an independent consultancy) concluded that a universal tax-free shopping offer to overseas visits would not lead to net benefit of £340m/year to the Exchequer, generating £4.1 bn of additional GDP per year from international spending and support over 78,000 jobs UK-wide. We support the calls of the New West End Company and the Association of International Retailers for a full OBR assessment of tax-free shopping to enable the Chancellor to make a fully verified and evidence-based decision.

Tourism Levy

It is essential that we invest in our cities, to revive them post-pandemic and set local areas up to be more financially stable going forward – with powers to create additional revenue for public services and local investment. The Chancellor should devolve revenue raising powers to Local Authorities to introduce an overnight tax/tourism levy. This is an easy to implement measure which already exists in other global cities, so will have a negligible – if any – impact on competitiveness. A tourism levy, or an overnight tax could be charged at either a flat rate per room or taxes based on category of room and would see visitors contributing towards services they consume. The Cultural Cities Inquiry (February 2019) has suggested that it could make a significant impact on investment in culture at a time where HMG feels unable to invest in the same way they have historically. The ten UK core Cities estimates that a £1 per night levy could generate more than £30m per annum.

Short-Term Lets

In 2020, pre-pandemic, we had over 13,000 Airbnbs listed in Westminster – the highest in London, with 72% of these being entire homes and 65% of hosts having multiple listings. The increase in Short Term Lets has had a particular negative affect on our community, impacting on residential amenity from anti-social behaviour to the reduced sense of community caused by the reduced availability of homes for long term residents. The growth of the short-term let industry has also created an uneven playing field for many of Westminster’s hospitality firms, where traditional providers (i.e. hotels) continue to bear the costs of business rates, corporation tax and complying with regulations. Individuals and agencies involved in the commercial short-term lettings industry are not subject to the regulations that they should - in principle - be subject to. We are calling for a centralised registration system, allowing property owners to declare how they are operating. This would enable appropriate taxation and allow us to charge individuals who commit anti-social behaviour when using STLs.

Funding

In order to enable local authorities to continue investing in growth and excellent public services, it is critical that we have clarity on our funding position. At a time when residents are facing higher national taxation, seeking to re-enter employment, and our businesses need them spending in order to enable recovery – this is not the right time to force large Council Tax increases. The certainty that comes with a three to five year funding settlement would make delivery of our services immeasurably more manageable and allow us to be confident in doing all we can for residents through these challenging times. As we have discussed frequently with the ONS, there is a high level of uncertainty around the Census data and resulting mid-year estimates, and so we ask that appropriate flexibility is built into the funding formula to account for these potentially anomalous results.

Dedicated Schools Grant (DSG) and School Funding

Whilst on the face of it, we have seen a reasonable uptick in education funding with the 2023/24 DSG and mainstream schools additional grant (MSAG), this doesn’t fully cover the impacts that inflation is having on our schools. The increases cover the 2022/23 pay awards for teachers and non-teaching staff, but not the 2023/24 pay awards or the sharp increases in energy bills and other costs that we still expect to rise by over 5% (this is particularly pertinent for some Westminster schools with falling rolls, who already have tighter margins). The most vulnerable are also the most impacted, as the high needs funding increase again does not fund pay increases for staff working in SEND schools or supporting EHCP students in mainstream schools. The reality is that without the clearly identifiable gaps being addressed for HMG funding, we as a Local Authority will have to start funding this ourselves and cutting our services elsewhere, which given the ongoing cost-of-living crisis is particularly unpalatable.

Regeneration

Currently, a lower level of VAT is applied to redevelopment projects, which leads to these being considered as the default. Given the climate emergency, we as a council have adopted a refurbishment-first approach to avoid the embodied carbon impacts of redevelopment – but these financial incentives are working against us. We would urge the Chancellor to reduce or zero rate the VAT applied to refurbishment projects, to put them on at least a level footing with redevelopment projects and equip us to work with our partners to tackle the climate emergency. While this is a

reduction in taxable income, it would enable more work to get underway in line with local planning objectives and help support more work for SMEs that take on smaller projects.

Housing

Inflation has brought a crisis in temporary accommodation funding, at a time where more people are at risk of needing temporary accommodation, there is a severe gap in funding. The formula for temporary accommodation needs to be updated urgently to reflect rising rental costs and supplemented with a more realistic level of housing benefit support. The consequence of this gap currently is that LAs are being forced to fill the void from increasingly scarce resources, which also limits our ability to invest long-term in housing and addressing the structural issues feeding the problem.

There is an issue with the pipeline of accommodation to house people temporarily, which proper financial investment will address to an extent, but Government needs to consider consulting and establishing a new strategy to meet the national temporary housing needs.

Rough Sleeping

Westminster experiences the highest rates of rough sleeping across the country - creating a unique environment where we hold vast amounts of expertise across the Council and our charity partners, and a concentration of rough sleeping that, if materially improved, would disproportionately improve the national picture. We are committed to substantively reducing rough sleeping, we understand what is needed to do this effectively, and we now need the support of Government to achieve our shared ambition.

Fundamental to tackling persistent rough sleeping is proper long-term funding for a range of services, including mental health, drug and alcohol and outreach services. Part of the solution to reducing rough sleeping is dealing with the systematic issues that lead people to living on the streets. The Gordon Hospital, which provides crucial mental health services, was closed without consultation in 2020 at the beginning of the pandemic. Since then, Westminster residents requiring in-patient emergency mental health support have had to travel for services – pushing the pressure over to the Royal Borough of Kensington and Chelsea. The Chancellor confirming that funding will be put in place to re-open or re-provide such services to support us with tackling rough sleeping is desperately needed.

Adult Social Care

Nationally, Adult Social Care (ASC) has been underfunded for over 15 years, and the delay in implementing vital Care Reform legislation has further exacerbated long-term structural and financial issues underpinning the sector. Demand has continued to increase year on year, and this, coupled with complexity of needs increasing, people living longer with more complex needs and an ageing population overall is leading to even greater pressure on ASC budgets. Market fragility remains, there is a national need for social workers and occupational therapists, with vacancies rising by more than 50% in a year to 165,000 and an overall fall in the number of workers for the first time in a decade.

It is crucial that we have clarity on longer term funding beyond grants and funds allocated for 2023/24 and 2024/25 and that the Chancellor works with the Department of Health and Social Care to determine how the sector can be strengthened to resolve these long-term structural and funding issues. We ask that the Government supports the sector in promoting and attracting more people

into social care, by ensuring terms, conditions and career development is improved, as well as how those entering and already working in the sector are valued.

Flooding

As we start to see extreme weather events with increasing frequency, we need to move to investing prevention rather than recovery (although more also needs to be done here). Since concluding in July 2022, the independent London Flooding Review recommended several measures to ensure that those most vulnerable to flooding are protected with new infrastructure, and we are now calling on HMG to come forward with the funds for this.

Many of our residents have been left at risk of financial ruin as Flood Re excludes buildings including converted houses with four or more flats. Ruling out great swathes of Westminster, including many streets of converted properties, which are residential but treated as commercial by Flood Re. There are direct financial and mental health impacts on residents, some of whom are still out of their properties more than a year after being flooded. Those who have been offered insurance cover but not able to access cover through Flood Re, face extreme increases to premiums and excesses. Those who have been told that they are not eligible for flood insurance cover at all and have not had any protective measures put in place, face the prospect of future devastating flooding without the comfort of insurance.

We are calling on the Chancellor to work with the insurance industry to review this and ensure our residents are supported as they piece their lives back together and know they will be sufficiently protected in the future.

District Heating Network Upgrades

London has over half the heat networks in the UK (around 55%), and one of the acknowledged challenges with cost-of-living support has been those whose homes are heated from district heating networks, as this is technically commercial energy supply. There have been a series of piecemeal funding pots to try and improve these networks, none of which have been suitable for the circumstances facing Westminster. With the pressure and uncertainty in energy markets, there is clearly a case to invest in making these networks more efficient to reduce cost and we are calling on the Chancellor to provide grant funding for this purpose, to save our residents money as the cost-of-living crisis continues. In addition to this, in line with government ambitions to achieving net zero carbon emissions decarbonising the heat supply is also a key strategic priority. Our heat networks include the UK's oldest district network and transforming these to a low carbon heat supply will require significant capital projects and increase government funding.